



## Testimony

Before the Subcommittees on Military Readiness and  
Military Research and Development, Committee on Armed  
Services, House of Representatives

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# DEFENSE ACQUISITIONS

## Observations on the Procurement of the Navy/Marine Corps Intranet

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G A O

Accountability \* Integrity \* Reliability

Messrs. Chairmen and Members of the Subcommittees:

Thank you for the opportunity to submit this statement for the record. We have been reviewing the Navy/Marine Corps Intranet effort (hereafter referred to as the Intranet) at the request of the Chairman of the Military Research and Development Subcommittee. This statement provides our observations on that effort and focuses on determining whether the (1) Department of the Navy's (hereafter referred to as the Navy) acquisition approach and implementation plan are based on appropriate analyses, resolution of key issues, and adequate risk management activities and (2) Office of the Secretary of Defense is overseeing that effort with adequate review of relevant Navy analyses and other program activities to ensure that system interoperability and information assurance safeguards are implemented.<sup>1</sup>

The scope of the Intranet includes everything necessary for the transmission, receipt, processing, and display of voice, video, and data—the capital infrastructure and infrastructure improvements necessary to meet quality of service requirements, as well as maintenance, training, and operation of that infrastructure. The Navy's acquisition strategy assumes that these capabilities can be purchased from commercial vendors as a service. Under the Navy's acquisition approach, the Intranet contractor will own and maintain all required desktop and network hardware and software and provide all required information technology services. The contract service area is to include the continental United States, Alaska, Hawaii, Guantanamo Bay (Cuba), Puerto Rico, and Iceland for approximately 360,000 users.

On December 23, 1999, the Navy released a request for proposals for the Intranet (the Intranet solicitation), with the expectation of awarding a firm, fixed price contract (with performance incentives) in June 2000. The Navy states that the Intranet “is intended to develop a long-term arrangement with the commercial sector which transfers the responsibility and risk for providing and managing the vast majority of Department of the

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<sup>1</sup> Information assurance refers to the Department of Defense's (DOD) and the services' efforts to protect and defend their information and information systems and networks.

Navy (DON) desktop, server, infrastructure and communication assets and services." The transfer of responsibility and risk for providing these capabilities to the contractor is being achieved by the use of a "seat management" contract—a concept that is relatively new to government contracting. Under a seat management contract, the government acquires desktop services and support as a utility and pays for them on a per seat basis. Currently, no government contract has been awarded that rivals the Navy's expected single contract for over 360,000 seats for 5 years, with an option for an additional 3 years and a multibillion dollar cost over its life.

On November 22, 1999, as part of our review, we sent the Assistant Secretary of Defense for Command, Control, Communications, and Intelligence a letter asking him to answer several questions concerning the Navy's and his office's actions focusing on the Intranet. Our analysis of his response, which we received on February 14, 2000, forms the analytical framework of our observations. We also had many discussions with his staff and cognizant Navy officials.

## RESULTS IN BRIEF

The Navy's acquisition approach and implementation plan for developing a Navy/Marine Corps Intranet have a number of weaknesses that make the effort unnecessarily risky. The Navy has been working toward awarding a contract in June of this year—the result of an aggressive, service-established goal to accomplish an initial level of operational capability by December 2001. However, the Navy has developed and issued its request for proposals without

- developing a formal analysis of program alternatives and completing a business case analysis, to determine an appropriate acquisition strategy for the proposed Intranet;
- resolving key programmatic issues such as how the Intranet arrangement is to be managed within the Navy, how the Intranet will be funded, and how its information technology and other personnel may be affected by the Intranet; and

- taking certain risk mitigation steps such as testing the proposed approach on a smaller scale.

With regards to the Office of the Secretary of Defense's oversight of the Navy Intranet effort, we found that this organization has not fully

- defined how it will oversee program requirements for the Intranet effort, and
- established that the Intranet approach will be consistent with the Department of Defense's command, control, communications, computer, and intelligence systems architecture, particularly the Department's system interoperability and information assurance requirements.

#### ACQUISITION APPROACH AND IMPLEMENTATION SCHEDULE ARE UNNECESSARILY RISKY

The Navy established its acquisition approach for the Intranet in May 1999 and has been working toward a goal of awarding a contract in June 2000, a date accelerated from an earlier date of March 2001. The Navy accelerated its acquisition to provide a level of initial operational capability by December 2001—an aggressive, service-established goal not driven by specific mission needs. In the process, the Navy did not complete important programmatic actions prior to issuing its request for proposals, including (1) development of a formal analysis of alternative program options and a business case analysis, (2) resolution of key programmatic issues such as how the Intranet will be funded, and (3) risk mitigation efforts to offset the significant risks associated with such a large servicewide undertaking—actions we believe could significantly reduce the risk of the Intranet effort.

No Formal Analysis of Alternatives  
or Business Case Analysis

DOD Directive 5000.1 and Regulation 5000.2-R contain mandatory and discretionary policy and procedures for management of large dollar defense contracts. DOD Regulation 5000.2-R was designed to establish a simplified and flexible management framework for translating mission needs into stable, affordable, and well managed Major Defense Acquisition Programs and Major Automated Information System acquisition programs. The regulation defines a Major Automated Information System as an automated information system acquisition program<sup>2</sup> that is estimated to require total life-cycle costs in excess of \$360 million in fiscal year 1996 constant dollars. Navy officials told us that they do not believe Regulation 5000.2-R applies to the Intranet effort because they do not believe it represents the type of activity for which the regulation was intended. Also, in response to our November 22, 1999, letter, the Assistant Secretary of Defense for Command, Control, Communications and Intelligence stated, without explanation, that the Intranet “does not meet the definitional criteria for Acquisition Programs or Major Automated Information Systems (MAIS) Programs as defined in DOD Regulation 5000.2-R.” Given that the regulation is intended to be flexible and tailorable to meet the needs of individual programs, we have not received an adequate explanation as to why it is not being used to manage the Intranet effort. The regulation states that it serves as a general model for acquisition programs that do not meet the definition of a major automated information system. While some of the requirements of Regulation 5000.2-R may not be necessary for this effort, which is based on the assumption that services required for the Intranet currently are commercially available, in the absence of an agreed upon oversight process, we have looked to the 5000 series of documents for guidance on expected, reasonable, and sound management practices.

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<sup>2</sup> Regulation 5000.2-R defines an automated information system as a “combination of computer hardware and software, data, or telecommunications, that performs functions such as collecting, processing, transmitting, and displaying information” and an acquisition program as a “directed, funded effort designed to provide a new, improved or continuing weapons system or [automated information system] capability in response to a validated operational need.”

Regulation 5000.2-R states that an analysis of alternatives is to be prepared for covered programs at the beginning of the acquisition process to aid and document decision-making by highlighting the relative advantages and disadvantages of the alternatives being considered. Where appropriate, the analysis is to include discussion of interoperability and commonality of components/systems that are similar in function to other DOD, service, and agency programs. Additionally, this analysis is intended to foster joint ownership and afford a better understanding of subsequent decisions by early identification and discussion of reasonable alternatives among decisionmakers and staffs at all levels. For Major Automated Information System acquisitions, the Assistant Secretary of Defense for Command, Control, Communications and Intelligence is to designate himself or the service Chief Information Officer as the Milestone Decision Authority—the individual who approves transitioning an acquisition program from one acquisition phase<sup>3</sup> to the next. The Milestone Decision Authority may use those analyses in determining whether to allow the program to transition into its next acquisition phase.

In our November 22, 1999, letter, we asked the Assistant Secretary of Defense for Command, Control, Communications and Intelligence—who also serves as the DOD Chief Information Officer, whether an Analysis of Alternatives as called for in DOD Regulation 5000.2-R had been developed for the Intranet. The Assistant Secretary stated that a formal Analysis of Alternatives had not been developed. He went on to state, however, that during the first half of 1999, senior Navy leadership reviewed and considered numerous strategies for acquiring the Navy's information technology capabilities, including multiple implementations of information technology capability by region or organization. He also stated that as a result of that review, the Navy leadership decided that the requirements for a Navy-wide information technology capability could be provided most efficiently and effectively by the private sector under a long-term commercial-type contract for end-to-end information technology services. In a January 2000 message, the Chief of Naval Operations stated that the Secretary of the Navy and he

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<sup>3</sup> Regulation 5000.2-R lays out a management process that divides acquisition programs into phases. An acquisition phase consists of all the tasks and activities needed to bring a program to the next major milestone. Major milestones are the decision points separating acquisition phases.

had directed the establishment of the Navy/Marine Corps Intranet and made its use mandatory for all Navy commands.

While it did not develop a formal Analysis of Alternatives, the Navy is presently developing a business case analysis to demonstrate the viability of its chosen approach. That analysis is to compare the current state of information technology affairs within the Navy to the “to be” state called for in its Intranet solicitation and program plans. However, the Navy did not complete its business case analysis prior to releasing its request for proposals. Had the Navy done so, it might have been able to demonstrate the viability of its approach and the superiority of that solution over other alternatives.

#### Key Programmatic Issues Are Unresolved

The Navy decided on its Intranet acquisition strategy and released its Intranet solicitation without having resolved key programmatic issues. Specifically:

- Contract management issues remain to be worked out. The Navy recognizes that it must have management policies, procedures, and tools in place to exercise operational direction over critical segments of the infrastructure at the Navy and Marine Corps level, and by theater commands. This operational direction includes the ability to (1) set priorities for contracted services and (2) direct changes in network security. The Intranet solicitation states that an organization will be identified by the government to act as the central point of contact to the contractor for Intranet operations. The Navy established a committee to determine how it should govern the Intranet, including a concept for controlling Intranet operations, and to analyze Intranet effort overlap with the Department's Command, Control, Communications and Intelligence issues and policies. This committee is still working to develop this organization, the roles and responsibilities of the various parties in the organization, and the relationship of operational control and contract monitoring and administration.

- The Intranet funding plan is not fully developed. The Navy recognizes that funding availability and overall affordability are significant risks facing the Intranet program. Navy officials said that they will meet again to discuss the funding plan on March 16, 2000, but have no firm date to complete the plan, which is to identify the sources and amounts of funding available for the Intranet contract. Navy officials state that existing funding for information technology contracts and services will be adequate to pay for the Intranet contract. However, Navy officials also said this existing funding is dispersed in accounts that are not always identified as supporting information technology activities. The Navy recognizes that the resolution of Intranet funding availability and affordability issues may cause reductions in other non-information technology operations, and thus other missions may be affected.

The Navy may also be significantly underestimating total program costs. The business case analysis and the associated funding plan are designed to identify and pay costs directly attributable to the Intranet contract. Other necessary program costs that will not be accounted for include costs to integrate existing systems into the Intranet. In a December 1999 briefing on its preparation for Year 2000 contingencies, the Navy reported that it has almost 600 mission critical and an additional 1400 mission support systems. Navy officials told us that an unknown number of these systems use different technology than planned for the Intranet. As a result, additional costs will be incurred if they are to be integrated into the Intranet.

- A plan to manage the disposition of displaced personnel has not been completed. Navy officials told us that no one would lose their job as a result of an award of an Intranet contract. As a result, the Navy's plan should address the costs of personnel who will be displaced by the proposed Intranet contract. According to the Navy, the number of such personnel will not be known until proposals are evaluated. Given the Navy's position, the costs to pay affected information technology staff are costs that will require funding in addition to the Intranet contract costs. We believe the future roles of the staff likely to be affected and their costs to the Navy should have been weighed in determining an appropriate acquisition strategy.



Funding for the Navy's Intranet also raises the question of whether the funding of a multiyear contract for services should be specifically authorized by Congress. The Navy is proceeding under the authority of 10 U.S.C. 2306(g), which permits the head of an agency to enter into multiyear contracts for certain services. While 10 U.S.C. 2306b(i)(3) requires that multiyear contracts for acquisition of property greater than \$500 million be specifically authorized by Congress, there is no similar requirement for multiyear services contracts under section 2306(g). Navy officials stated that the Intranet contract represents an acquisition of services, not property, and therefore the requirement for a specific authorization does not apply. As a result, the Navy may enter into a multibillion dollar contract without specific congressional authorization. In addition, a single contract could be funded through a large number of programs using different funding sources without Congress having a clear view of the effort's scope, cost, and required funding. Navy officials stated that they have not sought congressional authorization for the Intranet effort.

#### Risk Mitigation Efforts Are Insufficient

The Navy does not plan to undertake certain risk mitigation efforts that we believe would be appropriate. For example, its acquisition approach does not use modular contracting and has not been tested.

#### Intranet does not use modular approach

The Navy's Intranet acquisition approach does not use modular contracting as suggested by the Clinger-Cohen Act of 1996.<sup>4</sup> That act calls for the head of each executive agency to use modular contracting for the acquisition of major systems of information technology to the maximum extent possible.<sup>5</sup> The Clinger-Cohen Act states that under modular contracting, an acquisition may be divided into smaller increments that (1) are

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<sup>4</sup> P.L.104-106, Feb.10, 1996.

<sup>5</sup> 41 U.S.C. 434.

easier to manage; (2) address complex objectives incrementally to enhance the likelihood of achieving workable solutions; and (3) provide for delivery, implementation, and testing of workable systems or solutions in discrete increments.

In our November 22, 1999, letter to the Assistant Secretary of Defense for Command, Control, Communications and Intelligence, we asked whether the provisions of the Clinger-Cohen Act applied to the Intranet effort and whether that effort should involve the use of a modular approach. The Assistant Secretary stated that all the requirements of the act applied to the Intranet effort, “with the exception of that part requiring the use of modular contracting.” The Assistant Secretary further stated that the Navy had “determined that it is impracticable to contract for the NMCI [the Intranet] using modular contracting, because an incremental contract with a minimal guaranteed revenue stream would not provide sufficient incentive to attract the investment that the program will require from industry.” We believe that without the benefit of a formal analysis of alternatives, it is difficult to determine the basis of the Navy’s position. Alternatives to the Navy’s current approach were identified. For example, a Navy Chief Information Officer’s May 11, 1999, Intranet briefing to the Secretary of the Navy left open the question of acquisition approach and included a program scope recommendation broken into three increments: increment one comprising base and local area networks; increment two comprising wide and metropolitan area networks, network distribution services, management, and security; and increment three consisting of shipboard local area networks, servers, end user devices, and productivity tools.

#### Intranet approach not tested

Despite relying on an untried combination of performance measures and management mechanisms, the Navy did not test its Intranet approach prior to the release of the Intranet solicitation, nor does it plan to test that approach before awarding a contract. The Navy’s Intranet approach relies on a defined set of performance measures that are intended to result in its obtaining a desired level of end-state service. These performance measures reflect a combination of measures neither previously used by the Navy nor in

the acquisition of services sized as large as the proposed Intranet. Additionally, the Navy is still developing a management oversight process for the Intranet contract—mechanisms that have not been through a pilot test.

In our letter to the Assistant Secretary of Defense for Command, Control, Communications, and Intelligence, we asked whether a small test of the Intranet approach had been considered. The Assistant Secretary stated that a specific pilot for the Navy Intranet was not done but noted that the Navy “has extensive experience in ‘pilot projects’ such as the Oahu Base Area Network (OBAN) and personal computer leasing.” He further stated that the Navy also had the benefit of lessons learned from other agencies and industry experiences. The Navy’s Oahu Base Area Network and personal computer leasing experiences are not similar in scope or approach to the planned Intranet. Based on our conversations with Navy officials and our on-site observations of the Navy’s Oahu Base Area Network project, the proposed Intranet contract represents a different approach to attaining the desired end-state, i.e., a services contract versus a government-owned and operated network, such as the Oahu Base Area Network. Also, based on our discussions with Navy officials, the Intranet solicitation defines performance measures that were derived primarily from industry and literature sources. The Navy was unable to direct us to a comparable Navy contract that mirrored the intended approach to be used in their Intranet effort. In our view, without testing, the Navy cannot be assured that it has a workable contract approach with measures of performance that ensure it will obtain the needed capabilities.

We also asked the Assistant Secretary whether the Department planned to direct that the Navy’s single contract, seat management approach be used departmentwide and across all the services if it was shown to represent a superior approach to its current means of operations. The Assistant Secretary responded that while the Navy Intranet approach holds great promise for the Navy specifically and DOD at large in terms of standardization and efficiency, it would be premature to mandate it as the Department’s preferred approach. In our opinion, a pilot test could help provide DOD confidence in the maturity of the Navy approach.

## OFFICE OF THE SECRETARY OF DEFENSE HAS NOT ESTABLISHED ADEQUATE SAFEGUARDS

The Office of the Secretary of Defense has allowed the Navy to undertake its Intranet acquisition effort without having fully defined how the Department will oversee the program. In addition, the Office of the Secretary has not determined that the Navy's approach fully supports the Department's Command, Control, Communications, Computers and Intelligence systems architecture—particularly the Department's system interoperability and information assurance requirements.

Oversight by the Office of the Secretary of Defense is critical as the Navy's Intranet effort and the form it takes will have departmentwide implications. For example, the Intranet may present a change in the model under which the Department acquires long-haul<sup>6</sup> communications services—presently acquired through the Defense Information Systems Agency. DOD policy mandates that the Defense Information Systems Agency is to be the manager and sole provider of long-haul communications for the Department to ensure effective, efficient, and economical use of long-haul services. Alteration of that model by one service could significantly affect the way the other services and DOD agencies implement their information technology networks—threatening the investment in and benefits of a unified long-haul approach.

### Oversight Process and Program Requirements Are Undefined

The Office of the Secretary of Defense allowed the Navy to choose an acquisition approach and release its Intranet solicitation without having defined a Department of Defense oversight process or set program milestones and exit criteria<sup>7</sup> consistent with DOD Regulation 5000.2-R. In July 1999, the Navy briefed the Assistant Secretary of

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<sup>6</sup> Long-haul communications are long-distance telecommunications between posts, camps, and stations.

<sup>7</sup> Exit criteria are established as goals for a program during an acquisition phase. They are used to track program progress and serve as gates that, when successfully passed or exited, demonstrate that the program is on track to achieve its final program goals and should be allowed to continue with additional activities within an acquisition phase or be considered for continuation into the next acquisition phase.

Defense for Command, Control, Communications and Intelligence on its proposed Navy Intranet acquisition plan. The Navy subsequently continued its program efforts with the development and release of a solicitation to acquire the Navy/Marine Corps Intranet. The Navy did this under the assumption that it was not subject to the regulatory oversight mechanisms of DOD Regulation 5000.2-R, and without coming to agreement with the Office of the Secretary of Defense on other appropriate oversight mechanisms, milestones, and exit criteria. Despite a prior requirement by the Assistant Secretary of Defense for Command, Control, Communications and Intelligence that agreement on an oversight mechanism was to be reached before a solicitation was released, DOD later agreed with the Navy's release of the Intranet solicitation without having that oversight process in place.

In response to our November 22, 1999, letter, the Assistant Secretary of Defense for Command, Control, Communications and Intelligence stated that the Intranet program does not meet the definition of a Major Automated Information System acquisition program set forth in Regulation 5000.2-R. The Assistant Secretary further commented, however, that due to the high visibility, large dollar value, and significant impact of the Navy effort on both the Navy and ultimately the Department, the Navy effort "will be" designated as a initiative of special interest and that a tailored oversight framework is being jointly developed and will be jointly approved.

In a December 3, 1999, letter to the Navy, the Assistant Secretary set two requirements on the release of a solicitation for the Navy Intranet. Specifically, he stated that the Navy and his office needed to (1) ensure compliance with the requirements of the Clinger-Cohen Act of 1996 and (2) "clearly define our mutual roles and responsibilities to allow efficient and effective insight into the N/MCI [the Intranet] program goals and their achievement." While DOD and the Navy have not yet agreed on an appropriate oversight process for the Intranet acquisition, DOD agreed to the Navy's release of its Intranet request for proposals. The Navy has received, and is evaluating, proposals.

## Interoperability and Information Assurance

### Objectives Remain Uncertain

In July 1996, the Chairman of the Joint Chiefs of Staff issued Joint Vision 2010 establishing a mission need for “information superiority”—the capability to collect, process, and disseminate an uninterrupted flow of information while exploiting or denying an adversary’s ability to do the same. In May 1997, the Commander of the Joint Warfighting Center issued a “Concepts for Future Operations” that concluded that attainment of information superiority will require the achievement of a fully integrated, end-to-end connectivity of military information systems that does not currently exist. For those visions of information superiority to be achieved, we believe DOD and the services will need to acquire cost effective, information technology systems and networks that offer interoperability and are protected, i.e., provide information assurance. These goals are reflected in the Intranet goals.

In part, the Intranet’s goals are to

- remove access, connectivity, and throughput impediments to productivity and speed of command;
- quickly and securely share knowledge around the globe;
- eliminate interoperability problems; and
- reduce the cost of voice, data, and video services.

Given that the Joint Vision 2010 represents a defensewide need for information superiority, there is a need to ensure that the Navy will efficiently and effectively attain that goal because of its implications for the attainment of defensewide information superiority. Defense Information Systems Agency and Defense-wide Information Assurance Program reviews of the Navy’s Intranet plans and key documents were not completed prior to the release of the Intranet solicitation.

A Defense Information Systems Agency official told us that, a couple weeks prior to the solicitation's scheduled release, the Navy asked the Agency to review a large volume of Intranet program documents to ensure their interoperability and information assurance coverage. He said that, given the volume of documents and the short time provided for review, his organization was unable to carry out the requested review.

Ensuring information assurance is a critical goal of the Office of the Secretary of Defense. As we reported to the Subcommittee on Military Research and Development in June 1998,<sup>8</sup> the Department of Defense is investing billions of dollars in information superiority related systems to implement the Joint Vision 2010 concept. That concept critically depends on the Department's information systems and their protection, i.e., providing information assurance. In 1997, an Assistant Secretary of Defense for Command, Control, Communications and Intelligence report<sup>9</sup> noted that the complexity of managing DOD's information assurance efforts had increased due to the proliferation of networks across DOD and that its decentralized assurance management could not deal with it adequately. That report stated that Department of Defense lacked effective processes to (1) assess the operational readiness of its information systems and networks, (2) identify its information assurance requirements, and (3) ensure that those requirements are programmed and executed in accordance with DOD's priorities. To deal with these issues, DOD developed its Defense-wide Information Assurance Program.

We discussed the Navy Intranet effort with the Director of the Defense-wide Information Assurance Program. We were told that Defense-wide Information Assurance Program staff had not reviewed the Intranet solicitation or program due to a severe staffing shortage. The Director of the Defense-wide Information Assurance Program noted, for example, that key billets in the architectural and acquisition divisions remained unfilled.

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<sup>8</sup> DOD's Information Assurance Efforts (GAO/NSIAD-98-132R, June 11, 1998).

<sup>9</sup> A Management Process of a Defense-wide Information Assurance Program (DIAP), Nov. 15, 1997.

## OBSERVATIONS

Due to the number of significant open issues related to the Intranet effort, the Navy would be prudent to move forward with an award of an Intranet contract only after such issues are addressed. A well-defined and implemented oversight approach, such as the traditional, tailorable process provided by DOD Regulation 5000.2-R, provides a framework that minimizes risk. We believe that development of (1) a defined acquisition process with exit criteria, (2) a formal analysis of existing alternatives, (3) specific performance measures, (4) a small test of the Intranet approach, and (5) a funding plan for the Intranet would add assurance that requirements are understood and that anticipated savings are achievable.

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This concludes our statement. We appreciate the opportunity to have it placed in the record.

## Contact and Acknowledgement

For further contacts regarding this statement, please contact Allen Li at (202) 512-4841 or Jack L. Brock, Jr. at (202) 512-6240. Individuals making key contributions to this statement included Robert Hadley, Joseph McDermott, Charles Rey, Karen Richey, John Van Schaik, Bruce Thomas, Hai Tran, and William Woods.

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